

Message Text

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43

ORIGIN NEA-12

INFO OCT-01 ISO-00 TRSE-00 L-03 AID-20 EB-11 IGA-02 RSC-01

/050 R

DRAFTED BY NEA/INS:JELEADER:AM

APPROVED BY NEA/INS:DKUX

TREAS;MSCANNER (DRAFT)

L/NEA:ATBROWN (DRAFT)

AID/ASIA:CHREES (DRAFT)

AID/CD:GEVANS (DRAFT)

AID/FM/LD:JGLAKAS (INFO)

NEA:LBLAINGEN (DRAFT)

EB:MCASSE

----- 119229

R 282246Z DEC 73

FM SECSTATE WASHDC

TO AMEMBASSY COLOMBO

INFO AMEMBASSY NEW DELHI

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E.O. 11652: N/A

TAGS: EAID, CE

SUBJ: MOV LOANS SETTLEMENT

DELHI PASS AID REGIONAL LEGAL ADVISOR O'DONNELL

REF: COLOMBO 1977, AID CIRULAR A-1572, NOV 17. 1972

1. BEGIN SUMMARY: WE ARE IN PROCESS OF PREPARING
NEGOTIATING PACKAGE FOR APPROACH TO GSL DESIGNED TO RE-
SOLVE LONG-STANDING MOV PROBLEM. AS FIRST STEP WE WISH
OUTLINE OUR UNDERSTANDING OF CHRONOLOGY OF DISPUTE AND OF
OUTSTANDING I*SUES. WOULD APPRECIATE YOUR VERIFICATION
THIS MATCHES YOUR UNDERSTANDING. END SUMMARY.

2. CHRONOLOGY:

A. MAY 8, 1968 - GSL INTRODUCED SECOND AND HIGHER

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RATE OF EXCHANGE THROUGH INTRODUCTION OF FOREIGN EXCHANGE

ENTITLEMENT CERTIFICATE (FEEC'S) SYSTEM.

B. JANUARY 1969 - EMBASSY FORMALLY ADVISED (AIDTO A-1, JAN 25) OF AID INSPECTORS' FINDING THAT ANOMOLY EXISTED BETWEEN USG RECEIVING OFFICIAL RATE FOR DLF RPT DLF LOAN REPAYMENTS WHILE PAYING HIGHER FEEC'S RATE FOR RUPEE FINANCED US OFFICIAL INTERNATIONAL TRAVEL. EMBASSY UNDERSTOOD ITS TASK AS RESOLVING THIS ANOMOLY AND IN INITIAL DISCUSSIONS WITH GSL TREATED MOV QUESTION AS ELEMENT OF EXCHANGE RATE ANOMOLY RATHER THAN FIRM US INSISTENCE ON RECEIVING FEEC'S RATE ON MOV LOANS (COLOMBO 1504, JULY 14).

C. APRIL 1969 - GSL OFFICIAL INFORMALLY PROPOSED GSL MIGHT AGREE REPAYMENT DLF RPT DLF LOANS AT FEEC'S RATE (COLOMBO 718). ACCORDING TO AVAILABLE RECORD, DEPT. THEN FOR FIRST TIME CLEARLY IDENTIFIED PRINCIPLE OF MOV AS CENTRAL ISSUE (STATE 61217, APRIL 21) ON ALL SEVEN DLF AND RPT AND ECA MOV LOANS: ALL SHOULD BE PAYABLE AT FEEC'S RATE; I.E., MOST FAVORABLE RATE.

D. JUNE 1969 - GSL AT MINISTERIAL LEVEL GAVE COUNTER PROPOSAL TO USG POSITION ON MOV, SUGGESTING TRADE-OFF WHICH WOULD MAKE OFFICIAL RATE OPERATIVE ON BOTH LOAN REPAYMENTS AND EMBASSY TRAVEL THEREBY ELIMINATING UNFAVORABLE ARBITRAGE ANOMOLY FOR US. EMBASSY COLOMBO CONSIDERED THIS A GSL EFFORT BE RESPONSIVE ALTHOUGH GSL MAINTAINED THERE WAS ONLY ONE OFFICIAL EXCHANGE RATE IN SRI LANKA, NOT DUAL RATE. GSL OFFICIAL ALSO NOTED DIFFERENCE IN MOV WORDING IN DLF AND ICA LOANS (COLOMBO 1373). WASHINGTON DEMURRED (STATE 111396) CITING IMF DOCUMENT DBS/58/128, 4/30/68 AS EVIDENCE DUAL RATE. WASHINGTON ALSO POINTED OUT QUESTION OF FEEC'S ON US TRAVEL EXPENSES WAS SEPARATE ISSUE FROM MOV QUESTION.

E. APRIL 1970 - FOLLOWING PERIOD OF STAND-OFF IN NEGOTIATIONS DUE TO DISPUTE OVER EXISTENCE OF MULTIPLE EXCHANGE RATE USG REITERATED POSITION THAT DUAL RATE EXISTS AND MOV LOANS REPAYABLE AT FEEC'S RATE. OFFERED CONSIDERATION OF RESCHEDULING OF DEBT TO EASE GSL LIMITED OFFICIAL USE

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BUDGETARY PROBLEMS. US CONTINUED ACCEPT REPAYMENT AT OFFICIAL RATE UNDER PROTEST (STATE 53055).

F. MAY 1970 - GSL TREASURY DEPUTY SECRETARY COOREY WROTE EMBASSY MAY 16 LETTER (COLOMBO 1378) WHICH ACCEPTED EXISTANCE DUAL RATE AND SEEMED CONCEDE TO US THAT ALL MOV LOANS REPAYABLE AT FEEC'S. COOREY LATER (COLOMBO 142, 1/16/73) ARGUED HE ONLY ACCEPTED PRINCIPLE THAT DUAL

RATE EXISTED IN SRI LANKA NOT THAT GSL ACCEPTED LIABILITY FOR FEEC'S RATE IN ALL MOV LOANS. IT IS DIFFICULT EXPLAIN THIS INCONSISTENCY EXCEPT PERHAPS THAT UNCERTAIN PERIOD SURROUNDING MAY 1970 GOVERNMENT EXCHANGE LED TO POLICY CONTRADICTIONS WITHIN GSL. POINT IS COOREY AND GSL DISAVOW MAKING CONCESSION ON RATE FOR ICA LOANS. USG PROPOSED REPAYMENT ALL MOV LOANS AT FEEC'S RATE ON MUTUALLY AGREED SCHEDULE.

G. OCTOBER 1970 - IN VIEW APPARENT PROSPECT FOR RESOLUTION MOV ISSUE ON TERMS ACCEPTABLE TO USG, WE SUSPENDED BILLINGS ON MOV LOANS PENDING FINAL AGREEMENT (STATE 186698). THIS SUSPENSION CONTINUED THROUGH 1972 AT LEAST IN PART BECAUSE TRAUMATIC EVENTS FOLLOWING APRIL 1971 INSURGENCY MADE FURTHER NEGOTIATIONS ON MOV DIFFICULT.

H. NOVEMBER 1972 - USG INSTRUCTED EMBASSY TO RESUME NEGOTIATIONS (AID CA-1572, NOV. 17).

I. DECEMBER 1972 - GSL REITERATED ITS ACCEPTANCE OF PRINCIPLE THAT MULTIPLE RATE EXISTS BUT ARGUED THIS ONLY APPLICABLE TO DLF LOANS AND STATED THIS POSITION WAS TRANSMITTED IN GSL 3/9/71 LETTER TO EMBASSY (COPY OF WHICH UNAVAILABLE).

J. JANUARY 1973 - GSL RESUMED PREPAYMENT OF DLF LOANS AT FEEC'S RATE AND ECA LOANS AT OFFICIAL RATE, LATTER AGAINST US PROTEST (STATE 75970, APRIL 23).

K. PRESENT - ISSUE REMAINS HUNG-UP ON QUESTION WHETHER PAYMENT RATE ON ICA LOANS CAN BE NEGOTIATED WITH GSL. GSL INSISTS ICA MOV WORDING WHICH ALLOWS DETERMINATION LIMITED OFFICIAL USE

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OF EXCHANGE RATE BY "MUTUAL AGREEMENT" MEANS THAT US ACCEPTS PRINCIPLE OF NEGOTIATED RATE. GSL PROPOSES THAT ICA LOANS, HOWEVER, BE PAID AT OFFICIAL RATE BECAUSE GSL CLAIMS IT PROHIBITED BY IMF RULES FROM ESTABLISHING INTERMEDIATE NEGOTIATED RATE.

3. PROTRACTED NEGOTIATIONS HAVE ESTABLISHED TWO FACTS USEFUL TO US:

A. GSL ACCEPTS FACT DUAL RATE OF EXCHANGE EXISTS IN SRI LANKA.

B. WORDING OF DLF MOV CLAUSES IS PRECISE AND GSL AGREES IT MUST REPAY THESE AT HIGHEST (I.E., FEEC'S) RATE.

4. NEGOTIATION PACKAGE FOLLOWS BY SEPTTEL. IN MEANTIME,
PLEASE COMMENT ASAP ON ABOVE DESCRIPTION OF STAGE SET.
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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN ASSISTANCE, DEVELOPMENT LOANS, GOVERNMENT DEBTS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
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